



Society of Actuaries in Ireland

Sample Risk Register & Risk Overview Statement for Pension Schemes

The sample risk register and risk overview statement overleaf have been prepared to help pension scheme trustees and sponsoring employers, with the assistance of their actuarial advisers, to identify the various risks inherent in pension schemes and to manage these risks effectively.

Also included at the end of this document is a sample explanatory table that sets out how *impact ratings* and *likelihood ratings* of “high”, “medium” and “low” in a risk register might be interpreted. Thus, for example, a risk that could have a financial impact greater than 15% of assets or liabilities, and that might be expected to occur occasionally during the lifetime of the scheme, could be considered to have a high impact rating and a medium likelihood.

Disclaimer

The attached sample risk register and risk overview statement are indicative only and should be adapted to suit the circumstances of the particular pension scheme under consideration. This may include adding risks that are not included in the sample risk register. The Society of Actuaries in Ireland makes no warranties or representations regarding the appropriateness of the sample risk register or explanatory table to any particular pension scheme.

April 2015.

Sample Risk Register

RISK REGISTER- XYZ PENSION SCHEME

LAST REVIEWED: DD MMM YYYY

DRAFT

IDENTIFY		EVALUATE			PLAN	
Risk category	Risk	Impact	Likelihood	Overall	Delegated owner with Trustees	Actions in respect of risk
Scheme management	Conflicts of interest may impact, or be perceived to impact, on decision making	H	M	H	n/a	<ul style="list-style-type: none"> * Prepare Register of Interests * Declare any new conflicts prior to Trustee meetings
	Lack of understanding of legal responsibilities, specific details of scheme and regulatory framework.	H	M	H	n/a	<ul style="list-style-type: none"> * Review understanding of issues continuous basis * Trustee training (specifically if particular area of weakness)
	Failure to comply with regulatory requirements	H	L	M	Actuary	<ul style="list-style-type: none"> * Prepare annual governance and report progress on continuous basis
	Fraud or theft	M	L	L	n/a	<ul style="list-style-type: none"> * Robust controls on bank accounts * Appointment of custodian * Processes surrounding confirmation of existence and identity of beneficiaries
	Poor advice from advisors	H	L	L	n/a	<ul style="list-style-type: none"> * Appoint suitably qualified advisors * Implement written agreements regarding scope of work of advisors
Sponsor covenant	Change in sponsor willingness to meet obligations	H	M	H	n/a	<ul style="list-style-type: none"> * Monitor payments of sponsor contributions * Consider independent assessment of sponsor covenant * Quarterly discussions with key decision makers in sponsor * Prepare balance of powers document
	Change in sponsor ability to meet obligations	H	M	H	n/a	<ul style="list-style-type: none"> * Monitor payments of sponsor contributions * Request financial information from sponsor to monitor financial health * Consider independent assessment of sponsor covenant * Request parental guarantee if applicable
Investment and Market	Lack of understanding of overall investment goals	M	L	L	n/a	<ul style="list-style-type: none"> * Appoint professional investment advisor * Prepare SIPP
	Inappropriate strategic asset allocation	M	H	H	Investment advisor	<ul style="list-style-type: none"> * Investment strategy review at least every three years * Value at risk (VaR) analysis
	Actual investments not in line with strategic allocation	M	M	M	Investment manager	<ul style="list-style-type: none"> * Regular reporting from investment manager
	Default risk	M	M	M	Investment advisor	<ul style="list-style-type: none"> * Set minimum credit ratings for investment
	Concentration of assets/ self-investment	L	L	L	Investment advisor	<ul style="list-style-type: none"> * Agree appropriate policy in this regard
	Poor performance of investment manager	M	M	M	Investment advisor	<ul style="list-style-type: none"> * Review performance relative to benchmark

	Interest rate risk (<i>of assets relative to liabilities</i>)	H	M	H	Investment advisor	* Asset Liability Modelling (max VaR agreed with investment manager)
	Inflation risk (<i>of assets relative to liabilities</i>)	H	M	H	Investment advisor	* Asset Liability Modelling (max VaR agreed with investment manager)
	Currency risk (<i>of assets relative to liabilities</i>)	L	L	L	Investment advisor	* Consider level of hedging for foreign currency investments
	Liquidity risk	L	M	L	Investment advisor	* Examine liquidity of assets in context of expected future cashflows
	Investment in financial instruments beyond understanding of trustees	M	L	L	n/a	* Agree policy on investment in complex or alternative assets * Specific training if necessary
Legislative	Changes in local legislation impacting on scheme	H	M	M	Legal advisor	* Regular legislative updates from legal advisor * Assess potential impact of expected legislative changes in advance
	Changes in European legislation impacting on scheme	H	M	M	Legal advisor	* Regular legislative updates from legal advisor * Assess potential impact of expected legislative changes in advance * Participate in consultations on potential changes
Funding and Solvency	Lack of communication between trustees and sponsor regarding future funding of the scheme	H	M	M	n/a	* Prepare Statement of Funding Principles in conjunction with sponsor
	Longevity risk (<i>risk that members live longer than expected, creating additional liabilities</i>)	H	M	H	Actuary	* Prudent assumption in funding calculations * Monitor emerging national and scheme experience * Consider annuity purchase
	Mortality risk (<i>risk that members die earlier than expected, creating additional liabilities</i>)	M	M	M	Actuary	* Review insurance arrangements
	Options risk (<i>risk that level of take up of member options is not as anticipated creating additional liabilities</i>)	L	L	L	Actuary	* Prudent allowance for options in funding calculations
	Concentration of liabilities in certain individuals	M	M	M	Actuary	* Scenario analysis to examine impact of individuals * Additional insurance such as DIS cover or annuity purchase
	Earnings higher than expected	M	M	M	Actuary	* Discuss future earnings expectations with employer
Operational	Costs exceed budgeted amount	L	M	L	n/a	* Monitor expenses on annual basis against budget * Implement fee agreements with advisors
	Benefits calculated incorrectly	H	L	M	Administrator	* Review internal controls by those calculating benefits * Spot checks in annual audit * Regular communication with members (e.g. benefit statements)
	Poor record keeping	H	M	M	n/a	* Regular administration reports * Data cleanse exercises * Audit of Annual Report and Accounts * Appointment of administrator with appropriate expertise and internal controls in place

Sample explanatory table

Impact rating	Assessment		Likelihood rating	Description	Indicators
High	Financial impact > 15% assets/liabilities		High	Might occur each year	Has occurred in the last three years
Medium	Financial impact between 5% and 15% assets/liabilities		Medium	Might occur occasionally during scheme lifetime	Has occurred at least once
Low	Financial impact < 5% assets/liabilities		Low	Not likely to occur	Has not occurred

Risk overview statement – items to consider

		Basic	Good	Ideal
1	Risk appetite statement			
	High level statement of the trustees' attitude to risk. Not possible to provide a pro-forma as this statement must be based on consideration of the specific risks and issues facing each scheme. The risk appetite statement may include: <ul style="list-style-type: none"> ▪ Trustees' objectives in managing the scheme (target solvency level / provide adequate / expected benefits) ▪ High level summary of approach to identifying and monitoring risks ▪ Extent to which trustees will accept / mitigate risk ▪ Categories of risk which the trustees will not accept 	●		
2	Structural elements			
	▪ Trust Deed and Rules	●		
	▪ Balance of powers summary		●	
	▪ Confirmation of Registered Administrator appointment		●	
	▪ Investment management agreements		●	
	▪ Administration service agreements		●	
	▪ Custodian agreements			●
3	Governance approach			
	▪ Trustee board membership, subcommittees	●		
	▪ Modus operandi including frequency of meetings, appointment of chair/secretary, procedures for circulation of agenda/papers/minutes		●	
	▪ Decision making procedures (i.e. full trustee meeting, by agreement between certain number of trustees, procedures for delegated decision making etc)		●	
	▪ Authorised signatory list	●		
	▪ Trustee training arrangements & confirmation of compliance	●		
	▪ Arrangements for provision of legislative updates			●
	▪ Register of trustees' interests			●
4	Policy suite			
	▪ Statement of funding principles		●	
	▪ Statement of investment policy principles	●		
	▪ Conflict of interest policy	●		
	▪ Dispute resolution procedure	●		
	▪ Data protection policy	●		
	▪ Revenue compliance policy			●
	▪ Policy on Member Nominated Trustees		●	